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FM AMEMBASSY ASTANA
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INFO RUCNCIS/CIS COLLECTIVE 1142
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RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 0539
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E.O. 12958: N/A

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SUBJECT: KAZAKHSTAN: GOVERNMENT DEVALUES TENGE

REF: ASTANA 204

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11. (U) Sensitive but unclassified. Not for public Internet distribution.

12. (U) SUMMARY: The National Bank of Kazakhstan allowed the country's currency, the tenge (KZT), to devalue on February 4 from its exchange rate of approximately 122 to the dollar. Announcing that it would abandon its support of the tenge in a bid to conserve foreign exchange reserves and increase domestic competitiveness, the National Bank set a new target rate of 150 tenge to the dollar. The move to quickly and significantly devalue was attributed to new National Bank Chairman Grigoriy Marchenko. The devaluation set off a rush among the public to buy dollars, resulting in dollar shortages at banks and exchange points. Stores moved to quickly adjust tenge prices upward. Twelve-month futures contracts for tenge were trading at 186 tenge to the dollar on February 5, but Marchenko said publicly the National Bank would not allow the tenge to slide to that level. END SUMMARY.

DECISIVE MOVE TO DEVALUE ATTRIBUTED TO NEW NATIONAL BANK HEAD

13. (U) Kazakhstan's National Bank announced on February 4 that it would stop supporting the country's national currency, the tenge (KZT), at its current exchange rate of approximately 122 per dollar, and allow it to devalue to the range of 145-155 per dollar. The announcement caused a rush among the public to exchange tenge for dollars, leading to dollar shortages at banks and currency exchange booths. The tenge immediately dropped toward 150 per dollar, with "street rates" reportedly approaching 200 tenge to the dollar in some provincial towns.

14. (SBU) A devaluation had been widely expected -- but not so steep, and perhaps not so soon. As late as February 2, Minister of Economy and Budget Planning Bakhyt Sultanov assured the public that a tenge devaluation would not exceed 10 percent. Prime Minister Masimov told the Ambassador on February 3 that the government had a

"confidential plan" to devalue, but gave no hint that it would be implemented the following day.

15. (U) Analysts attribute the decisive move to devalue to newly-appointed National Bank chairman Grigoriy Marchenko, a widely-respected economist and banker who was most recently CEO of Halyk Bank and previously headed the National Bank following the 1998 Russian financial crisis. The National Bank reportedly spent more than \$6 billion from its foreign currency reserves over the past four months defending the tenge, including \$2.7 billion in January alone. (NOTE: Prior to the February 4 devaluation, the tenge had effectively been pegged at a rate of 120 tenge to the dollar since September 2007, never moving more than three percent above or below that level. END NOTE.) The move to devalue was taken in part to improve Kazakhstan's terms of trade, particularly in light of the recent devaluation of the Russian ruble. Russia is Kazakhstan's largest trading partner, and with a 40 percent devaluation of the ruble since the summer of 2008, Kazakhstani enterprises were being placed at a growing economic disadvantage relative to their Russian competitors.

NATIONAL BANK PLEDGES TO MAINTAIN NEW BAND

16. (SBU) The National Bank has pledged it will maintain the currency within a new band of 145-155 tenge to the dollar. Marchenko said that the government and National Bank will provide assistance to help banks withstand the potential negative effects of the devaluation. Samruk-Kazyna National Welfare Fund Chairman Kairat Kelimbetov urged the population to remain calm and pledged that inflation, at least for daily necessities, will be kept manageable. Despite his reassurances, on February 5, many shops in Almaty and Astana closed to adjust tenge prices upward. Some Embassy suppliers are threatening to break their contracts and are demanding higher prices for their services in response to the devaluation. Even the Intercontinental Hotel in Almaty raised rates

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by 25 percent literally overnight -- slipping a revised bill under the Ambassador's door while he was asleep in his hotel room.

17. (SBU) It remains unclear whether the National Bank will be able to hold the tenge within the new 145-155 band. On February 5, twelve-month forward contracts used to speculate on or hedge against future currency fluctuations were trading at 186 tenge to the dollar. "The pressure will be there at 150 for the tenge and they'll have to devalue again," Lars Christensen, head of emerging-market strategy at Danske Bank in Copenhagen told Bloomberg. "As long as oil prices remain subdued, there is nothing telling you to buy the tenge and there will be pressure there," he argued. However, National Bank Chairman Marchenko dismissed this speculation on February 5, saying "We will hold to the announced corridor. Talk that the exchange rate will be 180 tenge per dollar in two months and 300 tenge at the end of this year is not truth, but fantasy."

18. (SBU) COMMENT: It remains to be seen how this devaluation will affect the ability to Kazakhstani banks to make repayments on their foreign debt obligations, which are usually denominated in dollars. Kazakhstani banks owe approximately \$40 billion to external lenders, of which more than \$10 billion is due to be repaid in 2009 and another \$10 billion in 2010. END COMMENT.

HOAGLAND